PHILIPPINES ECONOMIC & FINANCIAL WRAP-UP
SEPTEMBER 08 - 21, 2001

Summary

The September 11 terrorist incidents dealt the already-depressed stock market yet another blow, with the composite price index sinking to three-year lows and already depressed volumes thinning further. The peso traded within a P51.05-P51.41/US$ band from September 10-21, not much changed from the P50.89-PP51.39/US$ range at which it had traded from August 27-September 7. Treasury bill rates generally softened during the government's September 10 and 17 primary market auctions on strong signals that the Central Bank was poised to ease monetary policy (an expectation which, however, did not materialize). We also report on the latest (July) import figures (which showed the Philippines' import bill decline year-on-year after successive increases from April to June) and on automotive industry sales figures (which showed January-August sales in number of units down 11.7% from 200's comparable eight-month level). In banking, recently released data showed that the commercial banking system's non-performing loan ratio continued to rise, hitting a new high (17.7%) in July. End Summary.

These weekly reviews are available on the Embassy’s web site (http://usembassy.state.gov/manila). Our next update will be submitted on or about October 5. We provide a longer and more detailed review of the Philippine economy in our June 2001 Philippine Economic Outlook, which is also available on our web site. An updated Philippine Economic Outlook (October 2001) will be available on or about October 10.

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FOREX REPORT

The peso traded in the P51.05-P51.39/US$ range during the week of September 10-14 and in a slightly weaker P51.07-P51.41/US$ range during the week of September 17-21. The Philippine interbank foreign exchange market had closed for the day when the September 11 terrorist attack on the U.S. occurred. After ending at P51.30/US$ on September 11, the peso opened at P51.05/US$ on September 12 and closed that day at P51.23. Traders said that the generally weaker sentiment for the U.S. currency kept the peso within a relatively tight trading band over the past two weeks despite occasional commercial demand and the dearth of new foreign exchange inflows. They noted that the BSP's decision to maintain a neural interest-rate stance despite the latest U.S. rate cut also may have helped keep the local currency steady. The peso closed at P51.23/US$ on September 21 -- up 0.3% from its closing level two Fridays ago (i.e., P51.38/US$ on September 7). A number of traders told the Embassy that the peso could see some downward pressure in the coming week from foreign exchange demand for month- and quarter-end requirements, as well as from the escalating suspense over the United States' anti-terrorism response.

Exchange Rate Tables

Date	Weighted Average (Pesos/US$)	Closing (Pesos/US$)	Volume (Million US$)
AUG 13	51.278	51.210	124.0
14	51.183	51.175	94.5
15	50.831	50.950	136.5
16	51.101	50.950	129.0
17	51.193	51.140	60.0
AUG 20	51.303	51.300	107.8

21	51.329	51.250	88.0
22	50.946	50.910	145.2
23	51.014	51.000	62.3
24	51.056	51.050	107.5
AUG 27	51.176	51.130	113.0
28	51.106	51.200	59.4
29	51.207	51.190	90.3
30	51.210	51.215	55.5
31	51.017	50.935	107.5
SEP 03	51.005	51.040	72.5
04	51.078	51.150	107.0
05	51.216	51.170	77.5
06	51.311	51.335	96.0
07	51.345	51.380	77.2
SEP 10	51.285	51.230	75.0
11	51.299	51.300	89.0
12	51.180	51.230	32.3
13	51.269	51.280	74.0
14	51.258	51.300	39.5
Sep 17	51.206	51.260	60.5
18	51.375	51.370	81.5
19	51.393	51.400	73.5
20	51.373	51.290	81.5
21	51.268	51.230	19.5

Source: Bankers Association of the Philippines

CREDIT MARKET REPORT

Rates for the benchmark 91-day Treasury bills softened for a fourth consecutive week during the government's weekly (Monday) primary T-bill auction on September 10 and averaged 9.454%, before inching up somewhat to an average rate of 9.467% on September 17. Rates for the longer-term 181-day and 364-day bills declined during both the September 10 and 17 auctions (softening for the first time since mid-August). The 182-day bills averaged 11.629% on September 17 and the 364-day bills 12.544%. Compared to the September 3 primary auction, 91-day T-bills had declined by 5.4 basis points as of September

17; and the 182-day and 364-day bills by 33.3 basis points and by 27.5 basis points, respectively. Dealers said that investors moved to lock in longer-term rates on strong expectations that the Bangko Sentral ng Pilipinas (BSP, the central bank) would announce monetary-easing measures on or before the September 15-16 weekend. Some predicted that bids would be stickier coming down in the short-term because of escalating global uncertainties and the Philippine Monetary Board's recent decision to keep BSP rates at current levels (see next two paras below).

The Philippine Monetary Board (the BSP's highest policymaking body) held a special meeting on September 18 to discuss the U.S. Federal Reserve Open Market Committee's 50 basis-point rate cut. The Monetary Board -- which last approved BSP policy rate cuts in May and raised reserve requirements by a total of 4 percentage points in July and August -- announced that it had decided to keep policy rates and reserve requirements steady. The announcement came as a surprise after repeated, earlier hints from BSP Governor Rafael Buenaventura that an improved inflation outlook and steadier peso had provided monetary authorities with compelling reasons to adopt a monetary-easing bias.

In a statement, the Monetary Board said it had opted to adopt a cautious stance for now because of concerns that recent events in the U.S. could spill over into domestic markets. The Board cited uncertainties over world oil prices and pending wage hike petitions. They also noted that maintaining a favorable interest rate differential during a highly uncertain global political situation would encourage investors to hold on to peso-denominated assets. In separate interviews, BSP Governor Buenaventura said that the Monetary Board had opted to wait for further developments -- particularly the government's September inflation report (due for release first week of October) -- to obtain a clearer picture of potential inflation risks.

Domestic Interest Rates (in percent)

Treasury Bills

Auction Date	91 days	182 days	364 days
JUL 23	8.935	10.861	11.988
JUL 30	9.215	no sales	no sales
AUG 06	no sales	no sales	no sales
AUG 13	9.652	11.525	12.557
AUG 20	9.590	11.659	12.798
AUG 27	9.576	11.940	12.950
SEP 03	9.521	11.962	12.819
SEP 10	9.454	11.803	12.689
SEP 17	9.467	11.629	12.544

Source: Bureau of the Treasury

Prime Lending Rates of 14 Expanded Commercial Banks

Date of Survey	Average	Range
JUL 12	12.5837	10.00 – 13.849
JUL 19	12.6249	10.00 – 13.958
AUG 02	12.8134	10.50 – 14.215
AUG 09	12.8318	10.50 – 14.215
AUG 16	13.0594	11.00 - 14.652
AUG 23	12.9746	11.00 - 14.590
AUG 29	12.9726	11.00 - 14.590
SEP 06	12.8884	11.00 - 14.590
SEP 13	12.8746	11.00 - 14.590
SEP 20	12.8561	11.00 - 14.467

Sources: Bangko Sentral ng Pilipinas; Press reports

STOCK MARKET REPORT

The terrorist attacks in the U.S. dealt the Philippines' nearly comatose stock market yet another blow. The Philippine Stock Price Index (Phisix) closed 4.1% lower day-on-day on September 12, with volumes rising on strong selling pressures. Despite occasional upward blips on selective bargain-hunting, the Phisix generally headed downward over subsequent days, sinking to three-year lows during the September 17-21 trading week. Already thin daily trading volumes also occasionally sank below the P200 million mark to their lowest levels in the seven-year history of the unified Philippine Stock Exchange (PSE). Domestic news and developments -- i.e., weakening imports, banks' rising non-performing assets, and the BSP's decision to keep policy rates unchanged -- also dampened investor sentiment. The Phisix closed at 1,162.85 on September 21, down 10.4% from its 1,297.35 closing level on September 7.

Philippine Stock Exchange Index (PHISIX) and
Value of Shares Traded

Date	PHISIX Close	Value (Million pesos)
AUG 13	1303.65	337
14	1303.06	271
15	1325.16	398
16	1316.22	326
17	1306.17	488
AUG 20	1311.13	995
21	1306.66	342
22	1294.43	409
23	1278.14	347
24	1286.07	361
AUG 27	1287.48	241
28	1282.49	402
29	1270.57	232
30	1262.91	396
31	1265.44	477
SEP 03	1253.61	226
04	1252.58	359
05	1254.33	296
06	1283.74	525
07	1297.35	419
SEP 10	1297.19	406
11	1294.09	453
12	1241.39	624
13	1243.76	184
14	1236.42	294

SEP 17	1178.11	459
18	1206.38	258
19	1187.05	157
20	1177.53	227
21	1162.85	445

Source: Philippine Stock Exchange

BANKS' NON-PERFORMING LOAN RATIO HITS NEW HIGH

According to the latest BSP estimates, the commercial banking system's ratio of non-performing loans (NPLs) inched up from 16.96% as of June to a new high of 17.72% as of July. The nominal level of NPLs increased by 4.2% (P11.3 billion) month-on-month while loan growth (including interbank credits) declined by 0.3% (P4 billion). Total loans grew barely 3% year-on-year and were down 3.5% from the end-2000 level. Restructured loans (without which NPL ratios would be higher) increased by 2% (P2.1 billion) month-on-month and nearly 32% (P26.1 billion) from July 2000. Restructured accounts equaled 6.9% of commercial banks' outstanding loans –- up from 6.7% in June, as well as from July 2000's 5.4% ratio.

Foreclosed assets -- up by 0.7% (P1 billion) month-on-month and by 25% year-on-year -- equaled 4.8% of commercial banking system assets as of end-July. Non-performing assets (NPAs, the sum of NPLs and foreclosed assets) expanded by 3% (P12.2 billion) month-on-month and 21.4% year-on-year from 2000's comparable level to equal 14% of commercial banking resources (compared with the year-ago ratio of 12.8%). Banks beefed up loan loss reserves by 0.8% (P0.9 billion) during the month, for a coverage ratio (i.e., ratio of loan loss reserves to NPLs) of 43.5%, lower than June 2001's 45% figure.

Bankers doubt that NPL ratios have peaked, noting that businesses are struggling with both weaker export and domestic markets. Looking forward, a continued deterioration in asset quality could increasingly constrict banks' margins, liquidity, and overall profitability. A number of banks are exploring setting up or using the services of asset management companies

(AMCs) to clean up their non-performing accounts. The government has said that it will look into possible policy support measures to encourage private sector-led initiatives to liquidate non-performing assets.

COMMERCIAL BANKS – SELECTED INDICATORS

	2001 July	2001 June	2000 July
In Billion Pesos			
Total Loan Portfolio (TLP) a/	1,571.2	1,575.2	1,525.9
Non-Performing Loans (NPL)	278.4	267.1	232.9
Loan Loss Reserves (LLR)	121.2	120.2	101.7
Restructured Loans (RL)	107.8	105.7	81.7
Foreclosed Assets (FA) b/	145.8	144.8	116.6
Non-Performing Assets (NPA) c/	424.1	411.9	349.4
Total Assets (TA)	3,024.1	3,037.8	2,735.2
Selected Ratios (%)			
NPL/TLP	17.72	16.96	15.26
LLR/NPL	43.52	45.00	43.66
LLR/TLP	7.71	7.63	6.67
RL/TLP	6.86	6.71	5.36
FA/TA	4.82	4.77	4.26
NPA/TA	14.03	13.56	12.78

a/ Includes inter-bank credits
b/ Gross of allowance for probable losses
c/ Sum of NPLs and foreclosed assets

Source: Bangko Sentral ng Pilipinas

JULY IMPORTS DECLINE YEAR-ON-YEAR, TRADE BALANCE NARROWS

According to latest figures released by the government's National Statistics Office (NSO), July 2001's merchandise import bill (US$ terms) declined by 0.6% year-on-year. That contraction interrupted three consecutive months of positive year-on-year growth (i.e., 6.5% in April, 10% in

May, and 4.6% in June). Payments for capital goods and petroleum products contracted by 1.8% and 16.4%, respectively, offsetting the year-on-year increases posted by raw/intermediate materials (2.9%) and consumer products (7.3%).

While weak, imports have outpaced the export sector's depressed performance (attributed mainly to declining inventories). With exports down 19.4% year-on-year in July (Manila 5292), the resulting trade balance was a $66 million deficit for July. The monthly trade balance has been in the red since April 2001. Before that month, the Philippines last recorded a balance-of-trade deficit in April 1999.

On a cumulative seven-month basis, the import bill contracted by 0.5% year-on-year versus a steeper 10.8% decline in export receipts. The cumulative trade surplus ($667 million) narrowed by over 76% from 2000’s comparable seven-month level ($2.8 billion).

PHILIPPINE FOREIGN TRADE PERFORMANCE
(FOB Value in Million US$)

	Exports	Imports	BOT
Jan 2000	2,717	2,651	65
Feb	2,902	2,483	419
Mar	2,989	2,742	247
Apr	2,668	2,528	139
May	2,931	2,437	494
Jun	3,410	2,495	915
Jul	3,219	2,676	543
Jan-Jul 2000	20,835	18,012	2,823
Jan 2001	2,889	2,472	417
Feb	2,805	2,193	612
Mar	2,870	2,607	262
Apr	2,246	2,693	(447)
May	2,600	2,681	(81)
Jun	2,578	2,609	(31)
Jul	2,594	2,660	(66)
Jan-Jul 2001	18,582	17,915	667

Cumulative Year-to-Year

Growth (%)	(10.8)	(0.5)	(76.4)

Source: National Statistics Office

JAN-AUG VEHICLE SALES DOWN 11.7% YEAR-ON-YEAR

According to the Chamber of Automotive Manufacturers of the Philippines (CAMPI), August 2001 vehicle sales (in terms of number of units) mustered a 0.1% year-on-year expansion (equivalent to seven more vehicles sold compared to August 2000). While far from robust, August's performance represented a respite from seven consecutive months of year-on-year declines. For the first time thus far in 2001, the especially hard-hit passenger-car segment sold more units year-on-year (i.e., 4.2% growth, equivalent to 108 units) -- which industry officials attributed to the introduction of new passenger-car models. The commercial-vehicle segment -- which posted 5.3% growth in July following the launching of various new models of Asian Utility Vehicles (AUVs) -- reverted to negative year-on-year growth (2%) in August.

Cumulative January-August vehicle sales dropped by 11.7% from the number of units sold during 2000’s comparable period. Eight-month sales of passenger cars slumped by 23.7% year-on-year while automotive firms sold 4.9% less units of commercial vehicles compared to the January-August 2000 level. Car assemblers do not see industry sales picking up until next year and have said that the industry will be lucky to post even flat sales for the full year.

AUTOMOTIVE INDUSTRY SALES

	(No. of Units) 2000	2001	% Growth
August, Total	7,712	7,720	(0.1)
Passenger Cars	2,599	2,707	4.2
Comm’l Vehicles	5,113	5,013	(2.0)
Jan-Aug, Total	57,014	50,324	(11.7)

Passenger Cars	20,736	15,818	(23.7)
Comm'l Vehicles	36,278	34,506	(4.9)

Source: Chamber of Automotive Manufacturers of the Phil.